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RJR
Quarterly Report 1

Annual Meeting Issue

TO STOCKHOLDERS OF R. J. REYNOLDS INDUSTRIES, INC. FIRST QUARTER, 1977

The 1977 Annual Meeting of Stockholders *was held on April 27 at the Hotel du Pont, Wilmington, Delaware. A report on the annual meeting begins on page 11. A report on first-quarter corporate performance begins on page 4.*

Reynolds Tobacco introduces all-natural Real

R.J. Reynolds Tobacco Company has introduced Real, the first major all-natural blend cigarette, into the low "tar" market. The 9mg "tar" and 0.8mg nicotine cigarette has no artificial ingredients.

The new brand is being introduced with the heaviest advertising and promotion campaign ever known to be undertaken for a consumer-packaged product.

Media and promotional expenditures for Real during its three-month introductory period will be the largest ever in the tobacco industry. They will approach $40 million during the first six months the product is on the market.

More than 25 million four-cigarette packs of Real will be distributed to smokers in the largest and most extensive sampling program in the history of the tobacco industry. A couponing program offering smokers a discount on purchases of Real will also surpass any previously conducted by a cigarette manufacturer.

The introduction is being supported by advertisements in newspapers, magazines, Sunday supplements, out-of-home media and point-of-sale material created by Ogilvy & Mather.

The product is the result of a $500,000 research program begun in 1973.

"Extensive consumer research has clearly indicated a mass

(Continued on page 2)

(Continued from page 1)

Real: good-tasting, low 'tar'

market for this type of cigarette," Wm. D. Hobbs, chairman of R.J. Reynolds Tobacco Company, says. "It also gave extensive evidence of the quality of our product.

"Real was tested by more than 10,000 smokers. Sixty percent of the smokers of full-flavor cigarettes chose Real over its closest non-Reynolds competitor."

Hobbs describes the new cigarette as "a tribute to our experts in tobacco technology. . . .

"Our people were able to do three important things when they developed Real," Hobbs explains.

"They produced a good-tasting cigarette.

"They held 'tar' and nicotine content to a low level without sacrificing smoking satisfaction.

"And they were able to do it without using any artificial flavorings."

Hobbs predicts that Real's introduction will produce three landmarks for Reynolds Tobacco.

R.J. Reynolds Tobacco Company Chairman Wm. D. Hobbs let the cigarettes tell the story at the May 9 New York press conference introducing Real, the first major cigarette with nothing artificial added. Real, containing 9mg "tar" and 0.8mg nicotine, will be available nationally in both regular and menthol versions June 13.

"This product launch will become the most successful new cigarette introduction ever," he says. "With this brand, our company will be providing the taste leader among all low 'tar' cigarettes of today and possibly the full-flavor brand of tomorrow as the trend toward low-numbers products continues.

"Through the years we have led the industry by anticipating consumer demands and tastes, and developing products that satisfy those preferences. Today, many people are going back to natural products, seeking things that look, feel and taste natural. A growing segment of consumers are looking for real pleasure from natural products.

"We have developed a cigarette to appeal both to those natural tastes as well as to the increasing demand for low 'tar' and nicotine content cigarettes."

Sales of 'A' Lights exceed company projections

Export 'A' Lights, introduced by Macdonald Tobacco Inc. into the Canadian market in the latter half of 1976, has been enthusiastically welcomed by Canadian smokers. Its sales have run ahead of company projections since it was introduced and it is continuing to pick up market share.

'A' Lights is a line extension of Canada's most popular brand, full-flavor Export 'A'. Research prior to introduction indicated that smokers were strongly attracted to the taste of the newly developed 'A' Lights.

The advertising is direct and stresses the brand's flavor as well as its lightness and high quality. The advertising support generated a strong awareness of the brand, coupled with a strong tendency for smokers to try the brand. Healthy repurchase rates have given the brand a share of market that exceeds what the company originally anticipated.

'A' Lights was originally introduced into the province of Alberta in late July 1976, followed by the major metropolitan markets of Montreal and Toronto a month later. The Atlantic Provinces were added in early autumn, with full national distribution being achieved early this year.

RJR to construct office tower in Winston-Salem

R.J. Reynolds Industries, Inc. will construct a 16-story office building in downtown Winston-Salem, adjacent to the historic Reynolds Building.

When it is completed in 1980, the 580,000-square-foot tower and landscaped pedestrian plaza will combine with the Reynolds Building to become Reynolds Plaza. Construction will begin in mid-1978 and costs are estimated at about $34 million.

The new tower is the second major office construction project the Company has announced for its Winston-Salem headquarters in two years.

In December 1975, the Company announced plans for its World Headquarters to be constructed near R.J. Reynolds Tobacco Company's Whitaker Park manufacturing complex. Construction of the headquarters facility, which will house the corporate staff of Reynolds Industries, RJR Archer, Inc., R.J. Reynolds Tobacco International, Inc., and RJR Foods, Inc., is scheduled for completion in the fall of this year.

The Reynolds Plaza, combined with the World Headquarters, will provide the Company with more than one million square feet of office space in addition to the 48-year-old Reynolds Building.

With the new office tower, Reynolds Industries will have the potential to more than triple the number of employees located in Company-owned administrative offices and service units in downtown Winston-Salem. The Reynolds Building currently has space for approximately 800 RJR employees. The addition of the new facilities will increase the potential capacity of Reynolds Plaza to 3,000.

The new 16-story office tower will house a number of administrative service departments of Reynolds Industries and its subsidiaries. It will also contain major administrative and financial computer operations for the parent company.

The plaza area will contain a landscaped walkway and a two-story galleria linking the old and new buildings. The galleria will house a 500-seat cafeteria and an R.J. Reynolds personnel training center.

The exterior of the planned facilities has been designed to complement the Reynolds Building. Materials to be used on the outside surfaces of the office tower and galleria include precast concrete panels and gray-glass vertical windows. The plaza will feature gray granite in its walkway area.

Energy conservation was also a key in the planning of the new buildings. Computer-controlled climate and lighting will be utilized to minimize energy usage.

When it is completed, the new 16-story office tower (shown here as it will appear on completion) will be joined to the Reynolds Building by a galleria to create Reynolds Plaza.

Aminoil granted oil-shale lease

Aminoil USA, Inc. has been granted an oil-shale lease for about 19,000 acres of fee land in Uintah County, Utah, owned by Utah Shale Land and Minerals Corporation.

The lease is for a period of 10 years and for as long afterward as oil-shale products are being produced. Utah Shale Land and Minerals is entitled to receive advance annual royalties and production royalties.

Aminoil USA is pursuing a modest but promising research program to produce liquid hydrocarbons from oil shale.

Dear Stockholders:

Colin Stokes

J. Paul Sticht

R.J. Reynolds Industries, Inc. recorded a 16 percent increase in first-quarter net earnings to a record $88.1 million, up from $75.6 million a year earlier. Fully diluted earnings per share increased to $1.71 from $1.48. Consolidated sales and revenues rose 19 percent to a record $1.6 billion from $1.3 billion.

Approximately two-thirds of the sales increase came from domestic petroleum operations acquired in mid-1976 and not included in year-ago figures. The remainder of the sales increase was largely attributable to increases in the Company's transportation and tobacco businesses.

Earnings from operations (EFO) totaled $195.9 million, a gain of 18 percent over the previous year. The domestic tobacco, transportation and domestic petroleum businesses were responsible for most of the increase.

We expect 1977 as a whole to be another year of good progress, although there could be some unevenness in the quarter-to-quarter comparisons with 1976.

It will be difficult for us to show improvement over the strong performance in last year's second quarter.

Of the first-quarter net earnings increase, $3.3 million was attributable to unrealized foreign currency gains the Company must report under existing accounting rules. The swing between this unrealized gain and the $5 million unrealized translation loss in first quarter 1976 was $8.3 million or 16 cents per fully diluted share.

The unrealized gain in the first quarter of 1977 is just as unrelated to the Company's true operating performance as the unrealized losses we experienced in three of last year's four quarters.

Earnings for both 1977 and 1976 quarters include the effect of capitalizing certain leases in accordance with the terms of an accounting rule published by the Financial Accounting Standards Board late last year. The accounting change had no material effect on net earnings.

Domestic Tobacco

Domestic tobacco sales increased 4 percent to $648 million and EFO rose 9 percent to $137.8 million. The earnings increase was due to the

carryover effect of last year's price increases and to superior manufacturing productivity.

Unit sales for the first quarter were slightly below year-ago levels. Company estimates indicate that the decrease in its unit volume for the first quarter was less than the decrease for the industry as a whole. The company believes the comparative decline for RJR and the industry was attributable primarily to abnormally high industry unit sales during the first quarter of last year in anticipation of a transportation strike.

International Tobacco

Sales in the international tobacco business increased 9 percent to $295 million and EFO rose 20 percent to $17.6 million. The earnings improvement was largely attributable to higher prices. Unit sales were slightly lower than in the 1976 quarter, primarily as a result of the company's decision to cut back sales in some uneconomical markets.

Domestic Petroleum

Sales in the domestic petroleum business totaled $160.8 million in the first quarter. These sales were virtually all from the Burmah Oil properties acquired on June 30, 1976. The company had no domestic petroleum sales in first quarter 1976, prior to the Burmah acquisition.

EFO in domestic petroleum was $5.9 million, compared with a $2.3 million loss a year earlier when there were no domestic petroleum revenues to offset exploration expenditures. The company continues to place strong emphasis on an active domestic exploration program.

International Petroleum

International petroleum sales declined slightly to $123.4 million, while EFO declined from $4.9 million to $1.8 million, because of higher costs absorbed in the first quarter. The company is currently engaged in discussions with the Kuwait government regarding financial arrangements under the company's concession agreement. These discussions are a continuation of negotiations begun in February 1976.

Transportation

Revenues of Sea-Land Service, Inc. increased 15 percent to $219.2 million, and EFO rose 62 percent to $28.6 million. New Middle Eastern services and generally higher volumes accounted for the largest part of the increased performance. Higher average freight rates were sufficient to offset increases in fuel and other operating expenses.

Foods and Beverages

Sales rose 12 percent to $77.3 million at RJR Foods, Inc. in the first quarter, and EFO increased 6 percent to $7.6 million. The increases were due primarily to higher volumes of Hawaiian Punch Drink Mix.

Aluminum Products and Packaging

Sales increased 13 percent to $43.6 million at RJR Archer, Inc., and EFO increased 10 percent to $3.3 million.

The gains came largely from the Metals Division and Filmco International (a wholly owned subsidiary in Sedgefield, England). Higher prices accounted for about 60 percent of the sales gain, with increased volumes accounting for the rest.

Dividends

A dividend of 82 cents a share on the Common Stock was declared April 21, payable June 6 to shareholders of record May 10.

Financial Statements

The accompanying condensed financial statements are unaudited, but in management's opinion they contain all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of financial position as of March 31, 1977 and 1976, and the results of operations and changes in financial position for the three months then ended.

Colin Stokes
Chairman

J. Paul Sticht
President

April 21, 1977

R. J. REYNOLDS INDUSTRIES, INC.

CONSOLIDATED SUMMARY OF OPERATIONS

Three Months Ended March 31

(Dollars in Thousands Except Per Share Statistics)

	1977	1976
Net sales and revenues (Note 2):		
Domestic tobacco	**$ 648,011**	$ 623,030
International tobacco	**295,032**	271,291
Transportation	**219,248**	190,773
Domestic petroleum	**160,785**	—
International petroleum	**123,377**	128,532
Foods and beverages	**77,322**	69,240
Aluminum products and packaging	**43,594**	38,475
Other (principally intercompany eliminations)	**(16,092)**	(15,810)
Consolidated	**$1,551,277**	$1,305,531
Earnings from operations (Note 3):		
Domestic tobacco	**$ 137,801**	$ 126,452
International tobacco	**17,600**	14,685
Transportation	**28,604**	17,616
Domestic petroleum	**5,859**	(2,277)
International petroleum	**1,799**	4,915
Foods and beverages	**7,576**	7,164
Aluminum products and packaging	**3,268**	2,964
Other (principally unallocated corporate expense)	**(6,569)**	(4,875)
Consolidated	**195,938**	166,644
Interest and debt expense	**26,057**	11,251
Other (income) expense, net	**(2,219)**	(3,019)
	172,100	158,412
Foreign currency (gains) losses:		
Realized	**574**	399
Unrealized	**(5,199)**	6,340
Earnings before provision for income taxes (Note 4)	**176,725**	151,673
Provision for income taxes	**88,663**	76,082
Net earnings	**88,062**	75,591
Less preferred dividends	**2,215**	2,661
Net earnings applicable to Common Stock	**$ 85,847**	$ 72,930
Net earnings per common share (Note 5):		
Primary	**$1.84**	$1.60
Fully diluted	**1.71**	1.48
Average number of common shares outstanding:		
Primary	**46,775,634**	45,634,096
Fully diluted	**51,449,484**	51,143,776

See Notes to Consolidated Condensed Financial Statements.

R. J. REYNOLDS INDUSTRIES, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS

March 31

(Dollars in Thousands)

	1977	1976
ASSETS		
Current assets:		
Cash and short-term investments (Note 6)	**$ 172,930**	$ 71,661
Accounts and notes receivable, net	**526,201**	436,376
Inventories (Note 7)	**1,400,500**	1,295,433
Prepaid expenses	**22,500**	17,105
Total current assets	**2,122,131**	1,820,575
Property, plant and equipment - at cost	**2,853,111**	1,972,609
Less allowances for depreciation, depletion and amortization	**898,397**	717,156
Net property, plant and equipment	**1,954,714**	1,255,453
Cost in excess of net assets of businesses acquired	**170,234**	171,132
Other assets and deferred charges	**156,351**	174,586
	$4,403,430	$3,421,746
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable to banks (Note 10)	**$ 123,022**	$ 92,078
Accounts payable and accrued accounts	**535,669**	397,729
Current maturities of long-term debt	**46,200**	36,518
Income taxes accrued	**211,681**	261,377
Total current liabilities	**916,572**	787,702
Long-term debt (less current maturities)	**784,578**	445,338
Other noncurrent liabilities	**91,167**	54,776
Deferred revenue	**244,499**	—
Deferred income taxes	**200,404**	194,618
Stockholders' equity (Notes 8 and 10):		
Preferred Stock	**41,327**	49,682
Common Stock	**234,242**	228,314
Paid-in capital	**124,475**	104,657
Earnings retained	**1,766,166**	1,556,659
Total stockholders' equity	**2,166,210**	1,939,312
	$4,403,430	$3,421,746

See Notes to Consolidated Condensed Financial Statements.

R. J. REYNOLDS INDUSTRIES, INC.

CONSOLIDATED CONDENSED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Three Months Ended March 31

(Dollars in Thousands)

	1977	1976
Working capital was provided by:		
Operations:		
Net earnings	**$ 88,062**	$ 75,591
Depreciation, depletion and amortization	**58,344**	38,068
Deferred income taxes	**6,728**	1,455
Long-term foreign currency translation (gains) losses	**(2,848)**	3,303
Other	**13,218**	3,030
Total from operations	**163,504**	121,447
Proceeds from long-term debt	**3,601**	2,422
Reclassification of notes payable to banks to long-term debt (Note 10)	**140,000**	—
Proceeds from issuance of Company's stock	**11,097**	5,105
Other (principally disposals of property, plant and equipment)	**5,329**	6,356
	323,531	135,330
Working capital was used for:		
Capital expenditures	**69,010**	28,470
Cash dividends	**40,594**	37,782
Long-term debt becoming currently payable	**11,818**	8,648
Retirement of Preferred Stock upon conversion	**3,280**	1,564
Cost of treasury shares purchased	**1,359**	428
Reduction in deferred revenue	**18,822**	—
Other (principally other assets and deferred charges)	**1,435**	8,502
	146,318	85,394
Increase in working capital	**$177,213**	$ 49,936

See Notes to Consolidated Condensed Financial Statements.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Note 1
Accounting Change

During 1977 the Company changed its method of accounting for leases in conformity with the requirements of Statement No. 13 published by the Financial Accounting Standards Board in November 1976. All prior periods have been restated to reflect this change. The change had no material effect on assets, liabilities or net earnings.

Note 2
Excise Taxes

Net sales and revenues for the three months ended March 31 include excise taxes on tobacco and petroleum products as indicated in the following table:

	(Dollars in Thousands)	
	1977	1976
Domestic tobacco	**$197,212**	$200,367
International tobacco	**159,554**	139,332
Domestic petroleum	**3,232**	—
	$359,998	$339,699

Note 3
Costs and Expenses

For interim reporting purposes, certain costs and expenses are charged to operations in proportion

to the estimated total annual amount expected to be incurred.

Note 4
Income Taxes

The provision for income taxes includes both amounts due currently and amounts that are deferred and that may be payable in future years. The provision for deferred income taxes amounted to $6,728,000 and $1,455,000 for the three months ended March 31, 1977 and 1976, respectively.

Note 5
Earnings Per Share

Primary net earnings per common share are determined by dividing net earnings applicable to Common Stock by the average number of common shares and equivalent common shares outstanding.

Fully diluted earnings per common share are calculated using the "treasury stock" method. This method assumes that all shares of the Preferred Stock outstanding during the period were converted into Common Stock and the proceeds used to purchase treasury common shares at the higher of the average daily price or period-end closing price of the Common Stock.

Note 6
Cash and Short-term Investments

Short-term investments at March 31, 1977 and 1976, valued at cost (approximate market), amounted to $679,000 and $24,974,000, respectively. Cash balances at March 31, 1977, are substantially higher than the prior year amount due principally to compensating balance requirements incurred in connection with financing the acquisition of the former Burmah Oil properties.

Note 7
Inventories

The major classes of inventory and the amount of each at March 31 were:

	1977	1976
Leaf tobacco	**$1,036,120**	$1,009,240
Manufactured products	**107,690**	114,186
Excise tax on manufactured products removed from bond	**77,995**	77,404
Petroleum products	**28,651**	6,142
Other materials and supplies	**150,044**	88,461
	$1,400,500	$1,295,433

Note 8
Common and Preferred Stock

During the first quarter of 1977, 310,326 shares of the Company's $2.25 Convertible Preferred Stock (without par value), stated value of $10.57, were converted into 465,485 shares of Common Stock (par $5). Of the authorized but unissued common shares (60,000,000 shares authorized; 46,848,527 and 45,662,800 shares outstanding at March 31, 1977 and 1976, respectively) 5,864,725 shares were reserved for issuance upon conversion of 3,909,-817 shares of $2.25 Convertible Preferred Stock (authorized 3,921,767 and 4,712,257; outstanding 3,909,817 and 4,700,307 shares at March 31, 1977 and 1976, respectively).

Note 9
Contingent Matters

See Note 8 to the financial statements in the Company's Annual Report for the year ended December 31, 1976, for a description of certain commitments and contingencies including, among other things, information concerning (a) the results of the Company's investigation into questionable foreign payments, rebates to shippers, use of Company funds for domestic political contributions and related matters and (b) certain pending governmental investigations and private proceedings relating to such matters. The Company made the investigation and the 8-K filings referred to in Note 8 as part of the Securities and Exchange Commission's "voluntary program." The Company has been advised that its disclosures are still under investigation by the Securities and Exchange Commission staff. The Securities and Exchange Commission reserves the right under the voluntary program to initiate enforcement proceedings when appropriate.

In addition to the Federal investigation being headed by the Office of the U.S. Attorney for the District of New Jersey which is described therein, the Company has recently been informed that a related Federal grand jury investigation is being commenced by the Office of the U.S. Attorney for the Middle District of North Carolina, to be assisted by Special Agents of the Internal Revenue Service, concerning possible criminal violations of U.S. tax and other laws arising from the use of Company

funds for domestic political contributions and, possibly, from rebates and other payments referred to in Note 8. The Company cannot predict what actions, if any, will be taken as a result of this investigation.

An antitrust action similar to the antitrust action brought in October 1976 by a competitor of Sea-Land and described in Note 8 has been brought in March 1977 by States Steamship Company, another competitor of Sea-Land, represented by the same counsel, in the United States District Court, Northern District of California. Plaintiff's complaint requests the same relief as that originally sought in the case described in Note 8.

Note 10
Subsequent Events

On April 13, 1977, the Company issued $150,000,000 principal amount of 8% Sinking Fund Debentures. On April 14, 1977, pursuant to a registered underwritten secondary offering, certain underwriters acquired from a stockholder of the Company 600,000 shares of Industries' $2.25 Convertible Preferred Stock. The Preferred Stock was converted by the underwriters into 900,000 shares of Industries' Common Stock which was offered to the public. Upon conversion, $13,200,000 was received from the underwriters.

Of the net proceeds received by Industries in respect to the foregoing, $140,000,000 was used for reduction of Notes Payable to Banks, with the balance being used for working capital and other corporate purposes. Accordingly, such Notes Payable have been classified as long-term debt at March 31, 1977.

Board of Directors

JOSEPH F. ABELY, JR.
C. F. BENBOW
ALBERT L. BUTLER, JR.
HERSCHEL H. CUDD
GORDON GRAY
WM. D. HOBBS
WALTER L. LINGLE, JR.
JOHN MACOMBER
CHARLES F. MYERS, JR.
JAMES R. PETERSON
H. C. ROEMER
J. PAUL STICHT
COLIN STOKES
J. TYLEE WILSON

Officers

COLIN STOKES
Chairman and Chief Executive Officer

J. PAUL STICHT
President and Chief Operating Officer

JOSEPH F. ABELY, JR.
Executive Vice President and
Chief Financial Officer

MICHAEL R. McEVOY
Executive Vice President

JAMES R. PETERSON
Executive Vice President

J. B. SUNDERLAND
Executive Vice President

J. TYLEE WILSON
Executive Vice President

C. F. BENBOW
Senior Vice President and Secretary

RODNEY E. AUSTIN
Vice President

DENNIS DURDEN
Vice President

E. C. RITCHELL
Vice President

H. C. ROEMER
Vice President and General Counsel

R. D. THOMPSON
Vice President

J. W. DOWDLE
Treasurer

J. A. HAGAN
Comptroller

Summary of Annual Meeting

The Annual Meeting of Stockholders was held on April 27, 1977, at the Hotel du Pont, Wilmington, Delaware. Holders of 38,380,151 shares of Common Stock and 3,678,808 shares of Convertible Preferred Stock (82.0 percent and 93.4 percent, respectively, of the number entitled to vote) were represented either in person or by proxy.

Colin Stokes, chairman, presided. The following members of the Board of Directors were present: Joseph F. Abely Jr., C.F. Benbow, Albert L. Butler Jr., Herschel H. Cudd, Gordon Gray, Wm. D. Hobbs, Walter L. Lingle Jr., John Macomber, Charles F. Myers Jr., James R. Peterson, H.C. Roemer and J. Paul Sticht. Also present were John W. Dowdle, treasurer; and John A. Hagan, comptroller.

Five partners of the firm of Ernst & Ernst, independent auditors, were introduced: R.D. Neary, J.F. Braswell, D.L. Bodenhamer, T.N. Grice Jr. and J.R. MacNaughton.

The stockholders elected the following members of the Board of Directors to serve for the ensuing year: Joseph F. Abely Jr., C.F. Benbow, Albert L. Butler Jr., Herschel H. Cudd, Gordon Gray, Wm. D. Hobbs, Walter L. Lingle Jr., John D. Macomber, Charles F. Myers Jr., James R. Peterson, H.C. Roemer, J. Paul Sticht, Colin Stokes and J. Tylee Wilson.

Prior to and in connection with the Annual Meeting, several shareholders raised a question about the Company's policy on the Arab boycott of Israel. The policy includes the following:

No purchasing department in the corporate family has any "black list." Our Standards of Business Conduct require purchases to be made exclusively on the basis of price, quality and suitability to the Company's needs. Except where prohibited by U.S. law, we have done business with boycotted countries for years, both as buyer and seller, and we have no reason not to continue to do so in the future.

In some cases, importing countries require certificates as to the actual national origin of a product and as to the vessels or itinerary of vessels on which products are being transported. Those certificates may be given by an operating company so long as they are statements of fact and do not conflict with Reynolds' long-standing nondiscriminatory business policies. An operating company may issue affirmative certificates of origin, but may not issue negative certificates of origin, nor may it issue certificates as to whether or not it deals with American companies which are on so-called "black lists."

Neither the Company, nor any operating subsidiary, has agreed, or would agree, not to establish a plant in any country or to enter into licensing agreements with companies in any country, nor would they give information to purchasers from one country regarding the nonexistence of such plants or agreements.

Two proposals submitted to the stockholders were approved as follows:

Proposal 1 — Approval of 1977 Stock Option Plan.

Number of shares for:	
Common	36,591,499
Preferred	3,626,505
Total	40,218,004
Number of shares against:	
Common	1,792,526
Preferred	50,937
Total	1,843,463
Total shares voted	42,061,467
Number of votes:	
For	38,404,751
Against	1,817,994
Total votes cast	40,222,745

Proposal 2 — Ratification of appointment of Ernst & Ernst as independent auditors of the Company for the year 1977.

Number of shares for:	
Common	38,224,059
Preferred	3,673,338
Total	41,897,397
Number of shares against:	
Common	183,779
Preferred	5,529
Total	189,308
Total shares voted	42,086,705
Number of votes:	
For	40,060,728
Against	186,543
Total votes cast	40,247,271

Two proposals submitted to the stockholders were disapproved as follows:

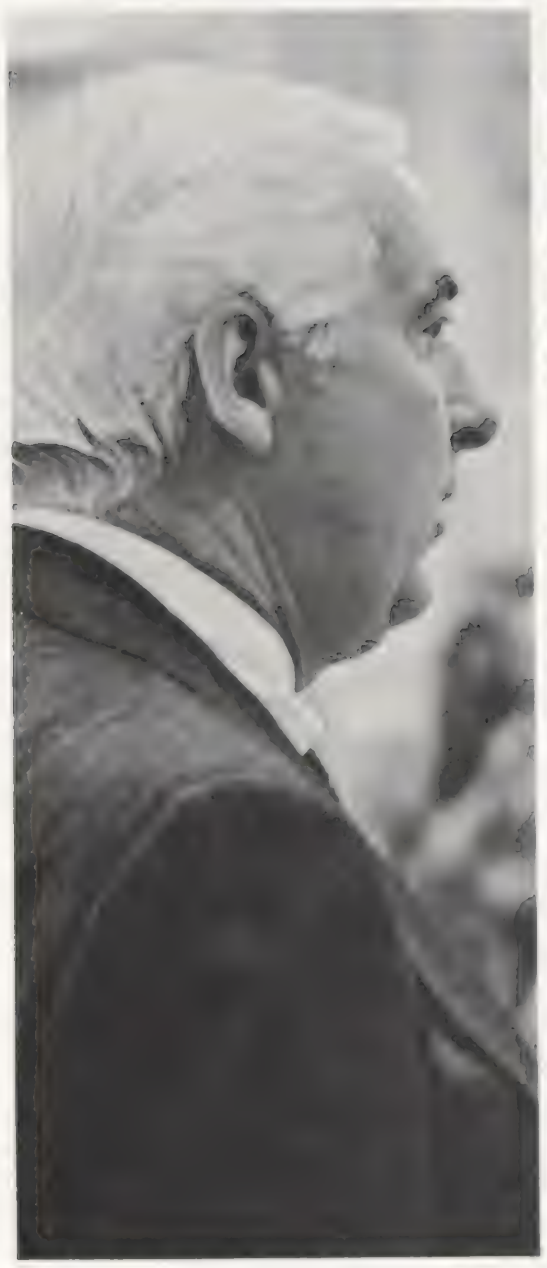
Proposal 3 — Resolution proposed by three stockholders with respect to preemptive rights.

Number of shares for:	
Common	1,563,902
Preferred	81,299
Total	1,645,201
Number of shares against:	
Common	35,811,811
Preferred	3,550,432
Total	39,362,243
Total shares voted	41,007,444
Number of votes:	
For	1,604,551
Against	37,587,027
Total votes cast	39,191,578
Number of shareholders for:	
Common	8,259
Preferred	323
Total	8,582
Number of shareholders against:	
Common	70,827
Preferred	2,082
Total	72,909

Proposal 4 — Resolution proposed by three stockholders with respect to retirement payments to executives.

Number of shares for:	
Common	2,138,794
Preferred	83,230
Total	2,222,024
Number of shares against:	
Common	35,236,945
Preferred	3,548,501
Total	38,785,446
Total shares voted	41,007,470
Number of votes:	
For	2,180,409
Against	37,011,195
Total votes cast	39,191,604
Number of shareholders for:	
Common	9,415
Preferred	344
Total	9,759
Number of shareholders against:	
Common	69,670
Preferred	2,061
Total	71,731

Discussion of Proposals



1977 Stock Option Plan

COLIN STOKES, *chairman, R.J. Reynolds Industries, Inc.:* The first matter to be considered and acted upon is the 1977 Stock Option Plan of R.J. Reynolds Industries, Inc. The Board of Directors has determined that a new stock option plan should be established to provide the Company with an effective means to attract, retain and motivate key personnel.

BERNADETTE LIBERTI, *New York, New York:* I represent Lewis D. Gilbert and John J. Gilbert. We are against the stock option plan because it dilutes the shareholders' equity. And we are against any loans for this purpose.

MR. STOKES: Let me just read you, if I might, a sentence out of the proxy statement: "The Company does not presently intend to make or guarantee loans for optionees to enable them to exercise their options but does reserve the right to do so."

Appointment of Auditors

BERNADETTE LIBERTI: I would like to direct my remarks directly to the auditors. We don't expect the internal auditors or the outside directors to catch minor amounts but we certainly have a right to know what was wrong with the $25 million not being caught. Could you explain to me what was wrong with the internal control that was unable to detect $25 million in questionable payments?

NELSON GRICE, *Ernst & Ernst:* The Company makes a very large number of payments in the form of commissions, discounts and similar disbursements that are made within the system of internal controls. As you probably are aware, our audit is made on a test basis. These payments in total represented much less than 1 percent of the total revenues of the company involved. So it is for these reasons that our tests might or might not have detected them, and that we were not aware that such things were improper.

MS. LIBERTI: Can you tell me what is being done to strengthen the internal controls so that that doesn't happen in the future?

MR. GRICE: The chairman spoke to that in his opening remarks. The Company has issued detailed code of conduct booklets and a financial control and procedure manual. And we have adjusted our audit programs accordingly to test compliance with those matters.

ALFRED G. PAULSON, *New York, New York:* Does Ernst & Ernst actually control or own the companies outside of the United States that audit the operations of R.J. Reynolds? And, if not, what kind of control does Ernst & Ernst have over their audit responsibilities abroad and how do they make sure that they follow instructions from the head office?

MR. GRICE: With the exception of one firm in Indonesia, which is a correspondent of ours, the other firms are in partnership with us. In other words, we share joint financial interests in every firm but one, and that is the correspondent.

In nearly all of these locations we have visited within the past two years to determine that the quality of work being done there was in conformity with what we expect here in the United States.

Preemptive Rights

MR. STOKES: We will now consider and act upon the resolution on preemptive rights, presented by three stockholders and which is opposed by management.

MS. LIBERTI: I would like to add a comment. I would like to read the following communication to us from a stockholder on the subject, which shows that many owners have feelings on the issue:

"I support you 100 percent in your work. I really don't see how any of the other shareholders can do otherwise. Surely it has often appeared that managements operate companies strictly for management and its appointees rather than for the stockholders."

Retirement Payments

MR. STOKES: We will now consider and act upon a resolution concerning retirement payments to executives, presented by three stockholders and which is opposed by management.

MS. LIBERTI: The resolution is stated on Page 23 of the proxy statement, but I would like to add that we are not suggesting that the ERISA ceiling of $84,000, including cost-of-living increases, be an absolute maximum. What we are asking is that there be the kind of fixed ceiling, such as Sperry Rand, J.P. Stevens and Koppers have now adopted and where, therefore, our resolution was withdrawn as a result of their adding the words "not exceeding 100 percent as a supplementary amount."

Remarks of the Chairman

Colin Stokes

We're back in Wilmington after two years on the road. Two years ago we held the annual meeting in Winston-Salem as part of our centennial celebration. Last year we went to Chicago.

We took the annual meeting away from Delaware so we could give our stockholders in different parts of the country an opportunity to attend.

This was recommended to us over the years by a number of people. We are pleased with our experience in other cities. And we plan to continue our program of moving the annual meeting to different locations in future years.

Nineteen-seventy-six was a year with an exceptional amount of activity for us at R.J. Reynolds Industries and in our subsidiary companies.

At the beginning of the year, we began construction on a new World Headquarters near our Whitaker Park cigarette factory in Winston-Salem. Earlier this year we announced construction of an office tower adjacent to the historic Reynolds Building in downtown Winston-Salem.

We decided to construct these two new buildings because our growth in recent years had outstripped our office facilities. Many of our office personnel are now spread out in rented office space around downtown Winston-Salem.

Satisfy current needs

The two new buildings will satisfy our current needs for office space and give us some room for reasonable growth for some time in the future.

At the beginning of 1976 we created R.J. Reynolds Tobacco International as a separate subsidiary of Reynolds Industries to direct our tobacco operations outside the United States. The new subsidiary is headquartered in Winston-Salem. Previously, the international tobacco business had been run as a division of the domestic tobacco company from Geneva, Switzerland, headquarters. From the first-year results, it looks as if the new structure is beginning to accomplish the goals we set for it.

Our acquisition of the major U.S. properties of Burmah Oil in the middle of the year for $522 million was the largest cash acquisition ever made in this country. It gave us the geographical diversity for which we had been looking. And it gave us a very attractive mix of producing and exploration properties. The new properties added approximately $254 million to our sales and revenues for the six months that we owned it in 1976.

During the year we had many changes in management at both R.J. Reynolds Industries and in the subsidiary companies. We believe these changes will strengthen our organization for the higher rates of growth we plan for the future.

However, we also lost some valuable talent from our board of directors.

Kreps to Cabinet

Most prominently, Juanita Kreps left us to take on the duties of Secretary of Commerce in President Carter's Cabinet. We are confident that she will contribute to that job as she did to our Company, and that President Carter will certainly be happy with his choice.

We were fortunate in being able to add some excellent talent to the board in 1976. During the year Jim Peterson, Ty Wilson and Albert Butler, president of The Arista Company, became direc-

tors. Joe Abely, who came to us from General Foods early this year, was elected to the board in February and joined R.J. Reynolds as chief financial officer in March.

Mr. Peterson, Mr. Wilson and Mr. Abely are also executive vice presidents of R.J. Reynolds Industries.

Much of our activity during 1976 was aimed at creating a base for the greater rates of growth we intend to achieve in coming years. Our results, however, were very satisfactory. The growth was in line with the trend we have established over the past decade.

Sales and revenues increased 19 percent in 1976 to a record $5.75 billion. Net earnings would have been up 12 percent over 1975, except for an accounting rule that forced us to report unrealized foreign currency translations as gains or losses. We have objected to this Financial Accounting Standards Board rule since it was implemented in 1975. We feel it distorts the true operating picture of the Company.

In the first quarter of this year, we had more than $3 million in unrealized foreign currency gains under this rule. When you put this together with the $5 million unrealized loss we had in the first quarter last year, you end up with an $8 million swing, or 16 cents a share.

First-quarter records

Our first-quarter performance set records for both sales and net earnings. Sales and revenues increased 19 percent to $1.6 billion. The Burmah properties we acquired last June added $161 million to first-quarter revenues this year.

Net earnings increased 16 percent to $88 million. Fully diluted earnings per share rose to $1.71 from $1.48 in the like quarter last year.

Earnings from operations were up 18 percent to $196 million. Domestic tobacco, domestic petroleum and transportation accounted for most of this increase.

We expect 1977 as a whole to be another year of good progress, although there could be some unevenness in the quarter-to-quarter comparisons with 1976.

It will be difficult for us to show improvement over the strong performance in last year's second quarter.

Internal investigation

Now I would like to make some remarks about the self-initiated internal investigation I announced at last year's annual meeting. Since then it has taken a great amount of management's time and attention. But we are satisfied that our investigation was complete and thorough, and that it was conducted in the spirit of the SEC's voluntary disclosure program. We published a full account of the investigation in the third-quarter report to shareholders.

Management's concern about the subject matter of the investigation did not end with publication of our findings. We have been actively involved in strengthening our methods and systems to ensure that practices like these do not recur at our Company.

We have circulated corporate standards of conduct to all management personnel and required them to verify in writing that they understand the standards and their obligation to abide by them.

We have greatly strengthened our audit controls and procedures to verify that no corporate standard is being violated.

As new laws and regulations come into existence, we will make sure that all managers are acquainted with the new regulations and their relation to our standards of conduct.

Refine and strengthen safeguards

We have worked avidly to assure that our investigation would result in a total housecleaning of objectionable practices. We will continue to refine and strengthen our safeguards, and ensure proper conduct throughout R.J. Reynolds Industries.

As you know, we are confronted with grand jury and other investigations as a result of our disclosures, and counsel has advised us that it would not be appropriate or in the best interests of the Company to comment further.

Before calling on Paul Sticht, I would like to express my appreciation to R.J. Reynolds Industries employees around the world, who helped make 1976 a successful year with their hard work and dedication.

I also want to thank the Company's shareholders for their interest and support throughout the year.

I will now call on Paul Sticht, who will talk to you about the evolution of our Company . . . some of the new features of today's environment . . . and how we see ourselves fitting into this environment.

Remarks of the President

J. Paul Sticht

Good afternoon, ladies and gentlemen.

I'd like to add my word of welcome to our annual meeting, and thank you for attending.

We appreciate the interest you show in your Company when you attend our meetings. And, as Colin said, we also appreciate your support during the year.

At last year's meeting in Chicago, I began my comments with a look at our rapid growth in the past 10 years. As you know, 1976 added to that growth.

Colin has told you about some of the numbers associated with our past performance. I hope to give you a sense of how we perceive ourselves as a company and where we think our future lies.

Less than a decade ago, R.J. Reynolds was primarily a domestic tobacco company with a collection of small foods companies and an aluminum division. Foreign revenue came mainly from exports of domestic tobacco products. As a tobacco company we were the most successful in the United States, but we were largely a one-country, one-industry corporation.

Global in scope

Today R.J. Reynolds Industries is truly global in scope. R.J. Reynolds Tobacco International manufactures tobacco products in 20 countries and employs more than 6,500 persons in locations outside the United States.

Sea-Land containerships serve some 130 ports in more than 50 countries.

Aminoil International has significant holdings in the Middle East and is exploring for oil and gas there, and in other foreign locations.

RJR Foods has a Canadian company that produces some of the products we have here in the United States as well as several lines sold only in Canada.

RJR Archer has a Filmco plant in England, which serves the Common Market countries.

Ten years ago our foreign involvement was insignificant to the corporation's performance. In 1976 almost 36 percent of our revenues came from foreign operations and about a third of our work force was located abroad.

The bulk of our international growth has occurred since we acquired Sea-Land in 1969.

In less than a decade our universe has changed

from domestic to global. And we are looking at ourselves as a member of the global community.

R.J. Reynolds has emerged as a multinational during a period of great change in the international environment. Great shifts of power have occurred in recent years. And the environment today is much less sure than it seemed to be a few years ago.

In this uncertain environment, there are some who would ask: "Why bother with foreign operations?" Some commentators are recommending that American companies concentrate on domestic operations . . . and some companies are de-emphasizing their foreign involvement.

World grows smaller

This is a short-sighted view. It goes against the historical trend that has seen the world grow smaller as countries have been brought closer together through economic trade. This form of neonationalism represents a temporary hiatus — not a permanent interruption — in the long-term historical trend that we have experienced.

In the future, technological advances and increased world trade will continue to bring the peoples of the world in closer contact with each other. Nations will become more — not less — interdependent in future years.

There is no doubt of the demand around the world for the benefits a multinational corporation can provide — products and services of superior quality . . . superior techniques of management, manufacturing and research and development . . . the creation of jobs . . . and training for local nationals.

No better vehicle exists to provide these functions than the multinational corporation. The major roadblock is only the question of how the benefits will be shared.

Multinational benefits great

The mutual benefits that can flow from the operations of a multinational corporation are so great that this question will inevitably be resolved. The world will come to view the multinational corporation as a legitimate and effective vehicle for improving the human condition around the world.

When we look at the future, we at R.J. Reynolds see an environment where companies like ours will be able to operate in a world market, where competition is fair and even . . . and where the quality of the product or service will determine success or failure.

At home here in the United States, we are at a watershed period in our economic and social development . . . a period in which we will see a great change in what the American people demand from their governments as well as from their corporations.

If we were to look for a sign of the times, perhaps the recent public reaction to the ban of saccharin is the most optimistic to choose. If it really is a portent of a new mood in America, it means that the American people are seeking a better balance in their society. They are reacting to years of growing powers of government regulation and asking themselves what they have been trading off to obtain the sweeping regulatory powers that now exist.

I believe the public realizes it needs protection against fast-buck operators, against fraud and defective and dangerous products. But I also believe the consumer now has a better idea of the business-government balance that is necessary if our system is to function to the satisfaction of the American people.

Fundamental changes in society

If the saccharin reaction is a sign of the times, it is only a symptom of fundamental changes in American society.

The American business community and many other institutions have changed radically in recent years. And so has the nature of the American population.

We are a country growing older. Our birth rate is low. Our average age is rising.

As this maturing of America continues, we will see a more realistic and sober view of America, its institutions, and its place in the international context. We have an extraordinarily well-educated population. The American people can be expected to take a thoughtful and analytical approach to the decisions they make about the way they want their society to be structured and administered.

In his recent book — *The Unseen Revolution* — Peter Drucker points out that American workers own 25 percent of the equity capital of American business through their pension funds . . . and he predicts these funds will own more than half of American equity by 1985.

When the American worker realizes that his retirement is based on the prosperity of American business, I believe his perception of the business community will change. He will begin to understand more tangibly why a company needs profits to reinvest for future production . . . why productivity is so important. If lower birth rates persist, it is only higher productivity that will allow an American worker a comfortable retirement in future years.

Unreasonable tide to subside

The implication this has for us at R.J. Reynolds is that the unreasonable tide of proposed restrictions on tobacco products may begin to subside. Smokers and nonsmokers alike will realize that many of these proposals invade areas better left unaffected by legislation and up to the common sense and common courtesy of the individuals involved.

I don't think we'll ever see the American public willing to accept lower standards from American business, government or any other sector of society. I don't think we would want to see this. In future years there will be steady demands for higher goods and services that are produced in a manner that has the least possible negative impact on our environment.

Our perception of ourselves at R.J. Reynolds fits neatly into this future. We have always stressed high quality in the products and services provided by our companies. We have responded early to calls for better protection of the environment and lower consumption of energy.

Leadership strategy

We believe we can compete successfully anywhere in the world in fair and open competition, where everyone plays by the same rules. Our strategy has been — and will continue to be — to stress leadership in all of our companies.

R.J. Reynolds Tobacco is the industry leader here in the United States, with a cigarette in every category. It will continue to offer products for every segment of the market — improving upon existing products and creating new ones to satisfy consumer demands.

Tobacco International will follow this same pattern in foreign markets, where local culture and taste provide many opportunities for a company with our resources and our expertise.

Sea-Land Service pioneered containerized shipping, which is the most effective way to move general cargo and is likely to remain so in the foreseeable future. Sea-Land is at the front edge of containership technology and is continually introducing new techniques to better serve its customers.

Innovative energy source

Aminoil is not among the largest energy companies. But it is involved in joint ventures onshore and offshore in the United States and abroad, which may provide important energy sources for the future. Aminoil is also developing an innovative energy source with a geothermal steam operation north of San Francisco. It is also working on an oil-shale project.

RJR Foods had a great success last year with Hawaiian Punch Drink Mix. This product is already among the leaders in the presweetened drink mix category, just a little more than a year after achieving nationwide distribution.

RJR Archer has established itself as a leader in certain packaging applications and in the casting of aluminum.

As a corporation, R.J. Reynolds Industries has organized itself to take optimum advantage of these strengths.

We recognize the responsibilities of a corporation to conduct itself as a good corporate citizen wherever we operate. And this corporate citizenship is nothing more than acting in a manner that is in our own long-term self-interest.

When the system is working properly, with all forces in society in balance, our operations will result in the benefit of our customers, our employees, our shareholders and the communities and countries where we have our operations.

Thank you.

Discussion during Annual Meeting

The following is a summary of the portion of the discussion considered to be of general interest to stockholders.

Board of Directors

JOHN D. DAVIS, *Stamford, Connecticut:* Nine of the 14 members of the board of directors, or 64 percent, are inside members of Reynolds. Five of the directors, including Mr. Sticht, have been brought in by him. The possibility exists that we have the potential with this board for one-man control.

J. PAUL STICHT, *president, R.J. Reynolds Industries, Inc.:* We at the Company believe that a majority of outside directors on a board is the most desirable thing to have. That is our objective. I think we would have had that today had we not had a couple of unanticipated resignations.

COLIN STOKES, *chairman, R.J. Reynolds Industries, Inc.:* At one time during the year 1975 or 1976 we did have a majority of outside directors. It is our intention to move in that direction. One further comment, the five directors brought in since Mr. Sticht came on the board were not brought in by Mr. Sticht anymore than by anyone else. They were voted on by the entire Board of Directors.

Sea-Land Service, Inc.

MR. DAVIS: I have a question about some information in the 1975 first-quarter report to shareholders. There are some very disquieting things about Sea-Land and some basic questions that, to my knowledge, have never been answered.

There was a report by a shareholder at the 1975 annual meeting saying that Sea-Land was closing its eyes to illegal practices by its employees. In that same report it was indicated that you knew something about a small part of this.

If any of the personnel problems and mis-shipments the shareholder spoke of did occur, to

my knowledge they have never been resolved. In other words, there has never been a follow-up from that meeting saying: "Yes, we did do this," or "No, we did not do this," or "No, we are not going to do this in the future."

H.C. ROEMER, *general counsel, R.J. Reynolds Industries, Inc.:* When I mentioned to the shareholder at the time that I had heard something about these allegations, I did not mean to convey the idea that they were of long standing to me. All that I heard about them is what he had written about them in the very few days or weeks before the annual meeting.

At the annual meeting he stated that he had a great deal of documentary evidence to support his allegations. I asked him whether he would cooperate with me and with the Company in making an investigation by giving us access to this documentary information or evidence that he had. He said that he would.

He never sent us that information. I followed up with him by registered letter, return receipt requested, asking him for that evidence. It was not forthcoming.

Nevertheless, we conducted a very, very thorough investigation, as best we could, bearing in mind that we had certain avenues closed to us by that time because of the United States withdrawal from Vietnam.

The conclusions that were drawn from that investigation, and the only proper ones that in my judgment can be drawn, were that there was no real evidence to support the allegations that were made.

I so advised the shareholder again by letter, registered mail, return receipt requested. I have heard nothing from him. That was October l975.

Corporate Performance

MR. PAULSON: In the press release announcing first-quarter results you indicated that earnings in the second quarter would probably not match the last year's second quarter. Also, there was reference to unit sales of cigarettes in the first quarter as not equaling the first quarter of 1976 because of some inventory weakness, which I guess we are all aware of.

Do you see the tobacco operations remaining either on a level, going down or going up over the next year or so? And how do you see the nontobacco operations of the Company, Aminoil specifically, in view of all the related energy measures being taken in Washington? Do you see an increasing proportion fo your income provided by the nontobacco operations?

MR. STOKES: In the corporate view it is our intention to continue to press and press hard in the tobacco business, the transportation business and the oil business and all of our other businesses. Whether the percentages will stay the same depends upon our success and our competition in each business. We do not intend to slacken our efforts in any of them.

Now I would like to call on Mr. Hobbs, the chief executive of our tobacco company, who can speak a little bit more to you as to what is happening in the industry itself as we see it.

WM. D. HOBBS, *chairman, R.J. Reynolds Tobacco Company:* The first quarter of 1976 was an extremely good quarter, with high unit volume based on the buildup of inventories. We did not go into a buildup this year in the industry. Our first quarter was a bit soft. It was not any softer than our projections had indicated. As a matter of fact, they are just about on target. We are back on stream now and we are on the budget. The first three weeks of April were quite good.

We see an industry growth rate this year in the area of 1 percent. Also, we think in the years to come, as you refer to the next two or three years, we think the growth rate will be somewhere in the neighborhood of 1.5 to 2 percent.

MR. STOKES: I will ask Jack Sunderland, the president of Aminoil, to speak to the last part of the question.

MR. SUNDERLAND: The properties that we acquired last year had a number of properties in the

development stage and they are just beginning to come onto production. Because of our heavy exploration expenses, we will not have the profits that we expect to have for the future, really beginning next year and the year after.

So 1977 should be a little better for the whole year than the first quarter indicates. But we would expect 1978 to be substantially better than that, and 1979 to be substantially better than 1978.

We expect our international operations to continue to be profitable. We are, however, trying to get involved in a number of areas where exploration expenses could be high if we were successful in concluding concession agreements. But basically they remain quite profitable, and we expect them to be profitable in '77, '78 and '79.

MR. PAULSON: I want to know just how the future looks for the overall foods and packaging companies and Aminoil and the Sea-Land operations of Reynolds in terms of maintaining their earnings growth rate over the next five or 10 years.

MR. STOKES: Our planning and work is to maintain and hopefully increase the growth rate that we have had over the last decade. We will, as I said, concentrate on the businesses we are in, and we have opportunities in each of those businesses, and in our opinion to continue growth in each one of them.

MR. STICHT: Let me speak for a moment to the transportation business. We have spent some time in consolidating our forces and our efforts in the transportation business in order for it to be able to produce the kind of sales and return on investment that we expect that we will produce. We have developed a long-range program that calls for the upgrading of some of that fleet, which is fairly old. We have plans for redeployment of the fleet in the most profitable manner. Some of that you have seen this year as we opened up our Middle Eastern service, which is getting off the ground very, very well, and in other areas where we have diminished somewhat our domestic service.

We have stated in the past that we believe this business at a minimum should earn at least $200 million from operations to be a satisfactory business. We see no reason why that objective as a minimum objective cannot be met.

Possibility of Stock Split

MORRIS WOLF, *Cherry Hill, New Jersey:* What is the possibility of a stock split fairly soon?

MR. STOKES: The Finance Committee meets quarterly and considers many matters, including the dividend that is declared each quarter, and this is a subject that comes under their review from time to time. At this time we have nothing else to announce on it.

Annual Report

MS. LIBERTI: This isn't a question, but I would like to take time to mention that I find you have an informative annual report and I would like to thank you.

MR. STOKES: Thank you very much.

R.J. Reynolds recognized for journalism scholarships

R.J. Reynolds Industries, Inc. has been recognized as the first major American corporation to create a scholarship program for black journalism students.

At the dedication of the Archives of the Black Press and Gallery of Distinguished Black Newspaper Publishers at Howard University, a plaque of appreciation and a citation were dedicated to Reynolds Industries by the National Newspaper Publishers Association (NNPA).

"Working with the NNPA has been a satisfying experience for us . . . We feel proud our program is making a positive contribution," Colin Stokes, RJR chairman, said in accepting the honor.

Stokes announced that the scholarship program will be extended to another 20 students for a second seven-year period.

Since 1972, the R.J. Reynolds Scholarship Program in Journalism has provided 20 journalism students with four-year scholarships to colleges and universities around the country.

Students who are recipients of scholarships are chosen by the NNPA, working with the National Scholarship Service and Fund for Negro Students.

Colin Stokes (center), chairman, R.J. Reynolds Industries, Inc., receives an award from Dr. Carlton Goodlett, president, National Newspaper Publishers Association. Seated next to Stokes is Thurgood Marshall, associate justice, United States Supreme Court.

Abely joins RJR from General Foods

Joseph F. Abely Jr. was elected to the Board of Directors of R.J. Reynolds Industries, Inc., effective February 17. He also became an executive vice president and chief financial officer, effective March 1.

Abely will serve as a member of the Company's management committee along with other Reynolds Industries executive vice presidents, Chairman Colin Stokes and President J. Paul Sticht.

Abely was previously with General Foods Corporation, where he was vice chairman, chief financial officer and a member of the board of directors. Prior to that he was president of the company's foods services products division. Before joining General Foods, Abely served in a number of financial and operating positions with W.R. Grace and Company.

He is a member of the boards of directors of Perkin-Elmer Corporation and Stauffer Chemical Company.

Kreps resigns to join Cabinet

Dr. Juanita M. Kreps resigned from the Board of Directors of R.J. Reynolds Industries, Inc., on January 21, 1977, to accept the position of Secretary of Commerce in President Jimmy Carter's Cabinet. Dr. Kreps, a Duke University vice president and professor of economics, had been a member of the RJR board since early 1975.

Shipping laws must change

Charles I. Hiltzheimer

If American-flag ships are to remain competitive in the international shipping industry, changes in federal laws are necessary, Charles I. Hiltzheimer, chairman and chief executive officer of Sea-Land Service, Inc., told a Senate subcommittee recently.

In a statement before the Senate Subcommittee on Merchant Marine and Tourism, Hiltzheimer maintained that U.S. lines such as Sea-Land are unfairly restrained by the Shipping Act of 1916.

The Shipping Act of 1916 requires common carriers in U.S. ocean-borne foreign commerce to file, publish and adhere to tariffs which set forth their charges for services offered to the shipping public. Departures from those tariff charges are prohibited.

"There is no question that attaining total American carrier compliance with the rebating prohibitions while our foreign competitors remain free to ignore the law will perpetuate foreign-flag dominance in carriage of the foreign commerce of the United States," Hiltzheimer said.

The Sea-Land executive explained that while American shippers are restrained from rebating, many foreign nations condone the practice. This makes it possible for foreign-flag ships to ignore U.S. laws against rebating.

"Sea-Land believes that the most viable and practical way to meet the rebating problem is to require every conference to permit its members the right of independent action on pricing and terms for their transportation services," Hiltzheimer told the subcommittee.

"We believe that Sea-Land can succeed in its business only in an environment that gives all carriers, importers and exporters equal opportunity to engage in fair competition."

Construction of the new World Headquarters has passed the halfway point, with completion scheduled for this fall.

Aminoil evaluates Atlantic potential

Aminoil USA, Inc., as part of a 19-company group, is participating in a test to evaluate oil and gas potential in the Atlantic Ocean, 116 miles east of Nantucket Island.

The site is in 268 feet of water in the Georges Bank area. The test will go to a depth of 22,000 feet and cost some $14 million.

Test results will be evaluated before a federal lease sale tentatively scheduled in June. This evaluation will determine whether Aminoil will participate in the sale.

Chun King offers King-of-the-Sky kite

Chun King has welcomed the spring with a "King-of-the-Sky" kite promotion. Buyers of selected Chun King Oriental food products can receive a 30-foot-long kite free with 10 proofs-of-purchase.

Two new low 'tar' brands offered

In moves to strengthen its already dominant share of the fast-growing low "tar" cigarette market, R.J. Reynolds Tobacco Company introduced in the first quarter of 1977 two new low "tar" brand styles.

Vantage Longs, a 100mm version of the No.1 low "tar" brand, was made available in January. The "tar" content is 11mg, the same as Vantage King Size.

Winston Light 100's, combining the taste and low "tar" of Winston Lights in a 100mm cigarette, is the latest member of the Winston family. Winston Light 100's were introduced in March. The new brand style contains 14mg "tar" and 1.0mg nicotine.

The low "tar" category, which includes brands containing 15mg of "tar" or less, grew at a rate of 47 percent in 1976. Reynolds Tobacco, the leading domestic cigarette producer with more than 33 percent of the market, accounts for about 40 percent of the low "tar" market.

Vantage was introduced in 1970 and rapidly became the best seller in the category. It is now the ninth most popular brand in the country and is the fastest-growing of the top 10. The brand helped establish the success of the low "tar" category by offering smokers full flavor and a low "tar" level.

Winston Lights were introduced in 1974 and have since grown at a rate of more than 60 percent annually.

RJR Archer to sell Consumer Division

RJR Archer, Inc. has announced it is looking for a buyer for its Consumer Division, which manufactures gift wrap, ribbons and bows at plants in Greeneville, Tennessee, and Carlstadt, New Jersey.

The sale of the division will allow the company to concentrate on growth opportunities involving metals, packaging and packaging materials that are compatible with RJR Archer's long-range objectives, Archer President Carroll Tompson said in announcing the decision to sell the division.

"We originally entered the gift wrap business to utilize excess printing and foil-production capacity," he explained. "Because of continued growth within the other three divisions (Metals, Packaging and Filmco), this excess capacity no longer exists."

Archer plans to retain the florist foil operation, which serves the wholesale florist market.

RJR Archer develops superior iodine pouch

RJR Archer, Inc. has developed a pouch package for iodine and other unstable chemical solutions that offers superior protection against leakage as well as increased packaging machine speed, compared with other available packages for iodine.

Kendall Hospital Products is using the new packaging material for its Curity brand of 10 percent solution of povidone-iodine in a one-ounce pouch. Acme United Corporation's medical products division also markets its One Time povidone-iodine swab in RJR Archer's pouch material.

Other companies are now investigating the use of the pouch for chemically active products and Archer feels the material will be adaptable for many other products besides iodine.

The pouch package was presented with a Breakthrough Award by the National Flexible Packaging Association during its 21st annual competition. RJR Archer also won first place in the coatings competition for the development of a flexible lidding for the Pringle's potato chip container.

Kendall Hospital Products and Acme United Corporation are using RJR Archer's pouch package for their iodine products.

Hawaiian Punch debuts two new Drink Mix flavors

RJR Foods, Inc. has introduced two new Hawaiian Punch Drink Mix flavors — Lemonade Punch and Orange Punch — into the fast-growing presweetened drink mix market.

The presweetened powdered drink mix market ranked third in dollar growth within the entire food industry in 1976 in categories of $100 million or more, with sales volume up 34 percent. The market is expected to increase 30 percent in 1977 to $475 million.

Hawaiian Punch Drink Mix was the most successful new food product introduction in the grocery store in the past two years, generating more than $50 million at the retail level.

RJR Foods' new Lemonade Punch is being sold in two-quart envelopes, and in canisters that make eight and 12 quarts. Orange Punch comes in two-quart envelopes and eight-quart canisters.

Drink Mix will be supported with prime time and daytime

network television advertising. More than 25 million samples of the two new flavors will be distributed and more than 140 million coupons will be offered in magazines and Sunday newspaper supplements.

The four Hawaiian Punch Drink Mix flavors introduced in 1976 were Red Punch, Grape Punch, Cherry Punch and Strawberry Punch.

RJR Archer increases aluminum strip prices

In April RJR Archer, Inc. increased the price of aluminum strip conductor products by 4.5 cents per pound. The increase became necessary because of a 6.3 percent increase in aluminum ingot costs in late March.

Prices of other aluminum rolled products are under review.

Sunderland asks to be reassigned

R.J. Reynolds Industries, Inc. has agreed to Jack B. Sunderland's request to be relieved of his responsibilities as an executive vice president on the Company's management committee. Sunderland has agreed to remain an executive vice president on the committee until a successor is chosen.

Sunderland will retain his position as president and chief executive officer of the Company's energy subsidiary, Aminoil International, Inc.

Sunderland, who was elected executive vice president of Reynolds Industries last September, said he made the request in order to be able to devote his full time to Aminoil operations.

Durden elected VP

Dennis Durden has been elected a vice president of R.J. Reynolds Industries, Inc. He was previously director of corporate public affairs for the Company.

Prior to joining RJR in 1975 Durden was operating vice president of urban affairs at Federated Department Stores, Inc., Cincinnati. Before that he was executive secretary of Cincinnati's Downtown Development Committee.

Durden holds a B.S. from Georgia Institute of Technology and an M.A. and Ph.D. from the University of Washington.

Reyno Extra Leicht, introduced in Germany by R.J. Reynolds Tobacco GmbH in the second half of 1976, has successfully established itself in the menthol segment of the German cigarette market. With 7mg "tar" and 0.4mg nicotine, Reyno Extra Leicht is promoted as a "fresh-tasting alternative for smokers of light cigarettes."

Tobacco International conducts series of worldwide seminars

Participants at the quality-control seminar tour Whitaker Park.

Since the beginning of the year R.J. Reynolds Tobacco International, Inc. has undertaken a series of seminars that brings its worldwide staff together with managers of R.J. Reynolds Tobacco Company to share knowledge and learn the techniques developed in the United States.

The company has held personnel, financial, quality-control and manufacturing seminars in Winston-Salem and a marketing seminar in New York.

"The primary purpose of these seminars is to sharpen our overall skills in different sectors of our business," J. Tylee Wilson, chairman and chief executive officer, explains.

"I think we accomplished this by organizing the seminars so that the participants could share information among themselves and at the same time get some real insight into key departments of the domestic tobacco company."

The seminars aim to provide a wide-ranging, in-depth look at activities of R.J. Reynolds Tobacco Company that relate to the concerns of the visiting Tobacco International managers. The Winston-Salem seminars also included tours of some facilities of Reynolds Tobacco and RJR Archer, Inc.

In addition to upgrading skills throughout the organization, Wilson says, the seminars "develop the kind of consistency of practice and communication you need to operate at top efficiency."

Wilson points out that one of the reasons Tobacco International headquarters were moved to Winston-Salem from Geneva in January 1976 was to "take better advantage of the great resource we have here in R.J. Reynolds Tobacco Company to support our worldwide operations. . . . The seminars have proved an effective way of utilizing this resource."

Sea-Land offers new services

Sea-Land Service, Inc. has begun weekly containership service between the East and Gulf Coasts of the United States and the Caribbean islands of St. Lucia, Guadeloupe and Martinique. The addition of these ports-of-call brings to 15 the number of Caribbean islands served by Sea-Land.

In Central America, containership service linking the ports of Houston; Puerto Cortes, Honduras; and Santo Tomas, Guatemala began in April. Key inland points in El Salvador and Honduras will also be linked to Sea-Land's global transportation system through the Central American service.

In March Sea-Land opened new container facilities at the port of Haina, Dominican Republic. Sea-Land has been serving the nation since 1964 and now provides containership sailings to it twice a week from U.S. ports.

A biweekly extension of the existing service to Saudi Arabia and the United Arab Emirates was introduced in March when the Iranian port of Bandar Abbas on the Persian Gulf was added to the Sea-Land system.

Weekly direct containership service from Port Everglades to Rotterdam, the Netherlands, was initiated in April. Four SL-18 class ships in this service will transport about 3,000 containers per month in the service between Southern Florida, the Mediterranean and the Middle East as part of the existing Gulf-North Europe service.

Aminoil develops geothermal energy in California

Geothermal energy, given only passing mention in President Carter's energy proposals, is an additional source of energy that is available now, and Aminoil USA is a leader in geothermal energy development.

Aminoil pioneered geothermal development, beginning with exploration in the mid-Sixties. The company is developing an area in The Geysers, a dry-steam field 80 miles north of San Francisco. Aminoil has completed 25 successful steam wells, eight of them during 1976.

Aminoil's proved geothermal steam reserves are sufficient to power a 135-megawatt electric generating plant scheduled to be in operation in 1979. Ground is currently being leveled for the plant, which will be the largest facility of its kind in the world. A 110-megawatt plant is to start operations in 1981, and a 55-megawatt plant in 1983.

Eleven plants now operate in the same area, using steam from other companies. These plants belong to a West Coast utility.

Geothermal steam involves no mining, no refining, no radioactive dangers, no problems with fire (steam does not burn), less acreage than for a hydroelectric dam, and sulphur emissions that are the same or less than those emitted from a fossil fuel plant burning low-sulphur oil.

One of Aminoil's steam wells in The Geysers, north of San Francisco.

Inquiries

Communications concerning transfer requirements and lost certificates should be directed to either Transfer Agent: The Chase Manhattan Bank, N.A., 1 New York Plaza, 14th Floor, New York, N.Y. 10015, or First Jersey National Bank, 2 Montgomery St., Jersey City, N.J. 07303.

Communications concerning dividends and change of address should be directed to R.J. Reynolds Industries, Inc., Shareholder Services Dept., Box 2959, Winston-Salem, N.C. 27102.

Dividend declared

On April 21 the Board of Directors of R.J. Reynolds Industries, Inc. declared a quarterly dividend of 82 cents a share on the Common Stock of the Company, payable June 6 to shareholders of record May 10.

RJR
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